

946 recommendation does not make these subsidies she purportedly identifies explicit,
947 rather, she continues the subsidies as they are, but denies access to the IUSF fund
948 to companies who purportedly have such subsidies in their rates. If Ms. Hegstrom
949 truly believes that the HAI rates identify the appropriate costs and that they can be
950 used to identify a subsidy level, a proposal to take action consistent with the
951 statute would be one that would reduce access rates to those levels and provide
952 increased IUSF funding to companies to replace those purported subsidies. For
953 example, on AT&T Exhibit 5.3, Ms. Hegstrom has identified the actual annual
954 revenue and the HAI annual costs for those companies whose rates are higher
955 than the average HAI cost of \$0.048 based on AT&T's HAI assumptions. BTA
956 Exhibit 4, Attachment 5 revises the AT&T exhibit to add totals to these two
957 columns and a calculated revenue difference that would result if these companies
958 rates were reduced to the \$0.048 level. The difference is \$2,135,654. Using Ms.
959 Hegstrom's assumptions (with which I do not agree) and her calculations the
960 identified purported subsidy is \$2,135,654. Under Ms. Hegstrom's assumptions
961 this is the subsidy for which the statute says the Commission should determine a
962 method of making it explicit. Implementation of such a method could be done,
963 under these assumptions, by reducing the access rates of the companies to \$0.048
964 and increasing their IUSF funding by \$2,135,654.

965

966 Q. Are you recommending that the Commission do this?

967 A. No, I am not. I do not agree with Ms. Hegstrom's HAI assumptions nor her
968 methods. I further do not believe that the statute requires action by the

969 Commission to in fact remove any identified subsidies. However, if the
970 Commission pursues the use of Ms. Hegstrom's rationale regarding the use of
971 average HAI costs, but individual company rates and believes some action should
972 be taken, the action described in the previous answer is more appropriate than Ms.
973 Hegstrom's recommendation to make certain companies ineligible to receive
974 IUSF funding.

975

976 Q. What is your recommendation regarding access rates in this proceeding?

977 A. I do not believe it is an appropriate action item for this proceeding and would
978 recommend that no access rates be changed as a result of the proceeding. I also
979 recommend that the Commission reject Ms. Hegstrom's proposal to make
980 companies whose access rates are higher than the HAI costs ineligible for IUSF
981 funding.

982

983 STAFF'S TRANSITION PLAN

984 Q. Staff witness Hoagg in his testimony proposes two different transition plan for
985 implementation of his proposals. Can you comment generally on these proposals?

986 A. Yes. While I do not agree with the affordable rates proposed by the Staff and
987 with the use of the HAI model results to limit the funding as Mr. Hoagg has
988 proposed, if the Commission chooses to implement these proposals, or proposals
989 similar to these which would severely impact the companies and their end user
990 customers, I believe that Mr. Hoagg's proposals for five-year transition periods
991 are not only appropriate, but are imperative.

992 Q. Turning first to his proposal for a transition to the Staff proposed affordable rates.
993 Can you briefly summarize the Staff's proposal and comment upon it?
994 A. Yes. Mr. Hoagg and Dr. Staranczak propose that rather than an immediate
995 reduction in funding to recognize the higher affordable rates that a transition be
996 conducted over a period up to five years in length. Specifically they propose that
997 rates would rise \$2 per month each year or by one-fifth of the difference between
998 the current rate and the affordable rate, whichever is greater. This rate difference
999 would be reflected in the calculation of the IUSF funding whether or not the
1000 company in fact raised its rates.

1001

1002 Q. Both Mr. Hoagg and Dr. Staranczak make a point of the fact that companies
1003 would not have to increase their rates but would have a choice in the matter.
1004 What are your comments on these observations?

1005 A. I agree that companies would have that discretion and that in some cases the
1006 companies may be able to implement other strategies and thus avoid a rate
1007 increase. However, neither the staff witnesses or the Commission should remain
1008 under an illusion that these rate increases will not generally take place. Given the
1009 circumstances surrounding this case and the primary use of the earnings test as a
1010 limitation of the companies' funding, the Commission should expect that in most
1011 cases the implementation of the proposal of the staff will result in rate increases
1012 by the companies.

1013

1014 Q. Turning now to the second transitional proposal of Mr. Hoagg, the proposal
1015 regarding phasing in the use of the HAI results as a limitation on IUSF funding.
1016 Can you comment on this proposal?

1017 A. First, I must reiterate that I disagree with Mr. Hoagg's proposal to use the
1018 individual company HAI results to limit the amount of USF funding. However, if
1019 the Commission decides to pursue this course of action, I believe that Mr.
1020 Hoagg's proposal to phase this limit in over a five year period is essential. IITA
1021 Exhibit 4, Attachment 7 shows the potential end user rate levels that would be
1022 required to provide the support shown by the individual company's earnings
1023 analysis. For most of these companies the rate impacts are very significant. The
1024 Staff's proposal to phase-in these impacts over a five year period is only prudent
1025 to allow the companies and customers time to adjust to changed circumstances
1026 and to allow the Commission to monitor the impact of this proposal and evaluate
1027 its continued appropriateness.
1028

1029 Q. In his reply testimony, Verizon witness Beauvais suggests that the transition plan
1030 should be shorter for some companies and should be individualized based on their
1031 specific rate situation. What is your comment on this proposal?

1032 A. I believe that the Staff transition as proposed substantially accomplishes what Mr.
1033 Beauvais is suggesting because the propose a rate increase of the higher of \$2
1034 each year or one-fifth of the difference between the current and affordable rate. A
1035 review of Staff Exhibit 3.0, Schedule 3.02 shows that some of the companies

1036 reach the affordable rate level in the first or second years, and many of them reach
1037 those levels by the third year.

1038

1039 Q. Mr. O'Brien, in his rebuttal testimony suggests a four-year transition with 2/5 of
1040 the change in the first year. What is your reaction to his proposal?

1041 A. I don't believe that the front loading of the impact is appropriate. For the
1042 companies who have the lowest rates, the Staff's proposal would have their rates
1043 more than doubled in the first year. Mr. O'Brien's proposal would cause those
1044 rates to be tripled with a monthly increase of over \$9 per line. I believe that the
1045 Staff's proposal for equal increases over the five-year period is a more appropriate
1046 approach and will cause fewer customer problems.

1047

1048 THE ISCECA AS THE INITIAL ADMINISTRATOR

1049 Q. Please address the recommendations of other witnesses concerning the
1050 Administrator for a new Universal Service Fund.

1051 A. The Parties, including Staff witness Clausen, generally agree with my
1052 recommendation that the ISCECA should be selected as the initial Fund
1053 Administrator. The designation by the Commission of the ISCECA, as the initial
1054 Fund Administrator, is of considerable importance, since the Fund needs to be in
1055 operation and in a position to collect and distribute funds, by October, 2001 (the
1056 month following the expiration of the DEM Weighting Fund).

1057

1058 The selection of a more permanent Administrator, whether as a result of a bidding
1059 process or by some other means, should be addressed in a subsequent phase of
1060 this proceeding following workshops or discussions convened by the Staff
1061 directed at determining how best to proceed with the selection of a more
1062 permanent Administrator. The ISCECA was created at the direction of the
1063 Commission in an Interim Order entered in Docket No. 83-0142 and is subject to
1064 any appropriate oversight by the Commission.

1065

1066 The Commission's Order will also need to authorize the ISCECA to collect from
1067 the Funding Carriers all expenses of administering the Fund.

1068

1069 FUND ADMINISTRATION AND IMPLEMENTATION ISSUES

1070 Q. Are there a number of fund administration and implementation issues that must be
1071 resolved?

1072 A. Yes, there are. A number of witnesses have commented or made
1073 recommendations concerning some of these issues. As I indicated in my Direct
1074 Testimony, the current procedural schedule in these proceedings anticipate a
1075 Commission Order sometime in September, 2001, only a few days before the
1076 DEM Weighting Fund terminates. Depending on the decisions made by the
1077 Commission, there will be very little time to effect implementation in order for
1078 funding to the new Fund recipients to commence on October, 2001. The Parties
1079 have agreed to hold a further workshop in an attempt to address administration
1080 and implementation issues with the hope of minimizing the problems.

1081 Unfortunately, time has not allowed for that workshop to yet occur, although it is
1082 my understanding that Staff may be proposing to conduct such a workshop shortly
1083 after the completion of the hearings in these dockets and prior to the time Initial
1084 Briefs are filed. The IITA encourages this process and will fully participate in it.
1085 Hopefully, some consensus can be reached at such a workshop and a mechanism
1086 developed, such as a Staff Report to be filed and included in the record, that will
1087 provide the Hearing Examiner and the Commission with additional information.
1088 Nonetheless, it is my belief that the Commission will need to address certain
1089 administration and implementation issues in its Order.

1090

1091 Q. In your opinion, what should be the Commission's primary focus with regard to
1092 initial implementation?

1093 A. With regard to initial implementation, the Commission's primary focus should be
1094 on assuring a continuity of timely universal service support to the small
1095 companies. The Illinois small companies have been receiving monthly payments
1096 from the Illinois High Cost Fund and/or the DEM Weighting Fund, which in
1097 many cases represent a significant portion of the companies' revenues and
1098 monthly cash flow. Those Funds are necessary for the companies to meet their
1099 financial obligations and their service obligations. A disruption of the flow of
1100 those Funds could have serious consequences.

1101

1102 Q. What Commission determinations will assist in meeting that objective?

1103 A. The Fund Administrator will need to be in a position to quickly bill Funding
1104 Carriers for their proportionate funding responsibility so payments can be made
1105 and funds distributed in October, 2001. Obviously, the Fund size and the funding
1106 methodology will determine the amount of each Funding Carrier's obligations and
1107 the amount of the bill that will need to be sent out. However, beyond that, in
1108 order for there to be a quick implementation, known and existing data should be
1109 used to allow for rapid implementation.

1110

1111 If the Commission chooses intrastate retail revenues as the funding methodology,
1112 the Funding Carriers' initial obligations should be based on existing and available
1113 data. To the best of my knowledge, the only source of existing data that would be
1114 immediately available would be from the Funding Companies' year 2000 Annual
1115 Reports filed with the Commission. Therefore, it would be my recommendation
1116 that this data be used to estimate the Funding Carriers' intrastate retail revenues,
1117 or stated another way, each Carrier's initial estimated funding obligation. An
1118 alternative source which is not so immediately available would be a data request
1119 from the staff to all carriers for such data based on their latest reports to the FCC
1120 regarding retail revenues which, I believe, include intrastate retail revenues.

1121

1122 Q. What is the problem with this alternative suggestion, such as the use of more up-
1123 to-date intrastate retail revenues?

1124 A. Again, to the best of my knowledge, that information is not readily available so as
1125 to allow the Fund Administrator to expeditiously estimate the amount of a

1126 Funding Carrier's funding responsibility and bill them for that amount. If the
1127 Fund Administrator (or the Staff, as discussed below) had to send out Data
1128 Requests to the large number of local exchange carriers and interexchange
1129 carriers certificated in Illinois, there would undoubtedly be at least delays in
1130 determining the source data for making a determination about individual
1131 companies' funding responsibilities and potential problems based on the time
1132 period chosen as to the availability of that information from individual companies'
1133 books and records. However, the use of an immediate data request might gather
1134 considerable data that could improve the estimating capabilities of the Fund
1135 Administrator.

1136

1137 Q. Even if the Commission determines that Funding Carriers' responsibilities should
1138 be estimated based on the year 2000 revenues as contained in the companies' ICC
1139 Annual Reports, are there remaining implementation problems with regard to the
1140 Fund Administrator's ability to promptly send out an appropriate bill to the
1141 Funding Carriers?

1142 A. Yes, I believe there are. It is my understanding that the ICC Annual Reports of all
1143 types of local exchange carriers and interexchange carriers, except incumbent
1144 local exchange carriers, are routinely accorded proprietary treatment by
1145 Commission Order. As a result, the Fund Administrator could not gain access to
1146 that information. I believe the Commission will need to direct the Commission's
1147 Staff to collect the requisite information and supply it to the Fund Administrator
1148 or alternatively allow the Fund Administrator access to that information.

1149 Obviously, the Fund Administrator should be required to accord proprietary
1150 treatment to individual company information.

1151

1152 Q. If the Commission determines that there should be a uniform percentage
1153 surcharge applied by all Funding Carriers to customers' bills, how should that be
1154 determined and implemented?

1155 A. With regard to the amount of any uniform percentage surcharge, the Commission
1156 will either have to set that amount for an initial period of the Fund based on the
1157 limited information is available on the record or direct the Fund Administrator to
1158 determine the amount of the surcharge and inform the Carriers based upon a
1159 Commission's determined data source or sources. Once again, in light of timing
1160 implementation issues, it is my belief that the amount of the surcharge can most
1161 accurately and best be estimated using the year 2000 Annual Reports data,
1162 supplemented, if possible, by information gathered from a data request. Whatever
1163 the Commission determines, they will need to speak with clarity in regard to any
1164 responsibilities designated to the Fund Administrator and in regard to the
1165 directions to the Carriers.

1166

1167 Q. If the Commission adopts a mandatory uniform surcharge on intrastate retail
1168 revenues as the basis for funding, what should be the relationship between the
1169 surcharge funds collected and the funding obligations of the Funding Carriers?

1170 A. In the normal operation of the fund, they should be identical. The funds collected
1171 by the Funding Carriers from the surcharge should be the amount that they remit

1172 to the Fund Administrator. This will require the Fund administrator to monitor
1173 carefully the monthly funds as they come in and to plan for some level of
1174 contingency funds to smooth over monthly variations in revenue collections.
1175 While this should be the normal operation of the fund, once it is working and a
1176 clear and accurate base of intrastate retail revenues has been established, there
1177 will likely need to be some initial alterations in this method to establish the initial
1178 funding of the new IUSF.

1179

1180 Q. Do you have some specific ideas in mind regarding this initial interim period?

1181 A. I have some suggestions in that regard though there may be other ideas that would
1182 work equally well. I believe that at the inception of the fund it would be
1183 appropriate to establish initial funding requirements based on estimates of
1184 intrastate retail revenues from the 2000 Annual Reports and any data request
1185 response information that might be gathered. Initial billing to the funding
1186 carriers, for a period of up to six months, would be made at fixed amounts based
1187 on those estimates. This would assure the fund an initial assured amount of
1188 funding while data was gathered on a monthly basis on actual intrastate retail
1189 revenues. Carriers would collect from their retail customers based on a uniform
1190 surcharge and report the revenue base and the amounts collected to the
1191 administrator. After three months of data is collected, the Fund Administrator
1192 could analyze the revenue base and the collections and be in a position to update
1193 the estimated surcharge, if necessary. At the end of the sixth month, based on this
1194 updated data, the administrator could start collecting funds based on actual billing

1195 amounts to end users by the carriers rather than on a fixed monthly amount based
1196 on 2000 estimated revenues.

1197

1198 Q. If the method is followed, isn't it likely that some carriers will collect more than
1199 their fixed assessment from end users while others may collect less?

1200 A. There is a strong likelihood that would be the result. I see two possible
1201 resolutions to this issue. One is to simply recognize that is a possibility and
1202 require the carriers to permanently pay the fixed assessment regardless of what
1203 they collect from end users. The second possibility, and one that is fairer to the
1204 Funding Carriers, is to provide for a true-up process after the six month period is
1205 ended to ultimately bring the funding requirement into line with the amounts
1206 collected from end users.

1207

1208 Q. Verizon witness Beauvais recommends more constant updating of data with
1209 regard to intrastate retail revenues presumably so both the amount of the
1210 surcharge and individual carrier's responsibility can be determined and adjusted
1211 to better reflect more recent data. Do you have any comments with regard to this
1212 proposal?

1213 A. First, with regard to the initial implementation for the reasons I have indicated
1214 above, known and available data such as that contained in the year 2000 ICC
1215 Annual Reports, should be used so there will not be a disruption in funding. On a
1216 going forward basis, I recommend that funding obligations be based on the actual
1217 end user surcharge revenue collected from the customers. However, in my

1218 opinion, there are administrative cost considerations and policy considerations as
1219 it pertains to how often the Commission would want to alter the percentage
1220 amount of a customer surcharge. Neither the size of any Fund that is proposed
1221 here nor the amount of the surcharge is so great that unnecessary administrative
1222 expenses should be incurred or customers confused to obtain a "more precise"
1223 calculation.

1224

1225 Q. In determining a Funding Carrier's funding responsibility, are there other issues
1226 that will need to be considered?

1227 A. Yes, there are. First, an individual Funding Carrier's financial responsibility
1228 needs to include their share of the cost of administration. Since this is an entirely
1229 new Fund with many more Funding Carriers and the Administrator potentially
1230 having additional obligations, in my opinion, the cost of the fund administration
1231 cannot be accurately projected at this time. An adequate amount should be
1232 allowed for fund administration costs to cover the high side of what might occur.
1233 If there is an over recovery in the first year, those amounts would be available to
1234 defray expenses in the second year.

1235

1236 Second, differing from the existing Illinois High Cost Fund and DEM Weighting
1237 Fund, which are funded by a few well established and in most cases large Illinois
1238 carriers, the new Fund will have literally hundreds of carriers with funding
1239 responsibility. It would be naïve not to anticipate some carriers with funding
1240 responsibilities who will not pay the amounts for which they are billed, and at

1241 least some of the carriers, may well terminate service in Illinois during the course
1242 of the year. With that in mind, it would be my recommendation that for the initial
1243 year, there would be a slight over assessment so as to make certain the Fund is
1244 fully funded. Once again, if this results in an excess balance at the end of the first
1245 year, this can be taken into account in determining the funding responsibilities for
1246 the second year.

1247

1248 Q. A piece part of one the recommendations contained in Verizon witness Beauvais'
1249 May 11, 2001 testimony was that the Fund Administrator could be given authority
1250 to order further contributions as needed, presumably to ensure that the Fund size
1251 is established by the Commission, including administrative expenses, as fully
1252 funded. Do you agree with that recommendation?

1253 A. This is an option that should be considered by the Commission and one which I
1254 would support.

1255

1256 Q. Are these issues that could be further discussed in the workshop that the parties
1257 have agreed should be conducted?

1258 A. Yes, they are. I would support their discussion in the workshops and other ideas
1259 that could make initial and ongoing implementation of the fund as smooth as
1260 possible. To the extent that the workshop results in further or different
1261 recommendations, I trust the parties will find a way to appropriate put those
1262 before the Commission. However, the Commission must act on these issues in

1263 order to implement the fund and provide necessary funding to the recipients of the
1264 new IUSF immediately after termination of the existing funds.
1265

1266 Q. Turning now away from initial implementation issues to ongoing fund issues, you
1267 indicated earlier in your testimony that certain parties apparently envision an
1268 annual filing process of both a rate-of-return showing, and perhaps, updated
1269 studies of the economic costs of providing universal service. Please comment.

1270 A. The Commission will obviously have to determine how often there will be a
1271 review in regard to the level of funding and what role the Commission desires to
1272 play or delegate to an administrator on a going forward basis. As I stated earlier,
1273 imposing annual costs on the companies, the Commission, and other parties to
1274 perform studies, review studies, make filings, and hold hearings should be
1275 avoided if at all possible. I would also think that all parties and the Commission
1276 would agree that a complex litigated proceeding, such as that in which we are
1277 currently involved, is an expensive process and should not become an annual
1278 event. That is certainly the ITA's position.
1279

1280 At pages 52-54 of my Direct Testimony, I recommended that the IUSF funding
1281 amounts be reviewed relatively infrequently, such as on a three or five year
1282 timetable. I also indicated that funding should not be frozen during that three to
1283 five year period but that if industry policy changes at the state or federal levels
1284 that would cause changes in a company's revenue streams, that this proceeding
1285 should be reopened or a further proceeding initiated to take into account the

1286 changed circumstances. In addition, individual companies should be allowed to
1287 make appropriate individual company filings if they have a change of
1288 circumstances in light of the rate-of-return constraint. The need for companies to
1289 make individual company filings would be absolutely necessary if the
1290 Commission adopted (which I believe they should not) any limitation based on
1291 HAI qualifications in this proceeding.

1292
1293 Nothing contained in the testimony of proposals of other witnesses lead me to
1294 change my proposal and recommendation. It would be the least costly and least
1295 litigious, while preserving to the Commission and all affected parties the ability to
1296 reopen issues related to the Universal Service Fund based on industry policy
1297 changes at either the state or federal level and allows individual companies to
1298 have their needs addressed if they have a reason to have those needs addressed
1299 based on a change in circumstances.

1300

1301 Q. Do you believe your proposal is supported by the statutory requirements of TA
1302 96?

1303 A. Yes, I do. One of the universal service principles contained in § 254(b)(5) is that
1304 "There should be specific, predictable and sufficient Federal and State
1305 mechanisms to preserve and advance Universal Service." I cannot overemphasize
1306 the need for the small Illinois companies to have both predictable and sufficient
1307 state support so they can plan for, budget and make necessary investments to
1308 provide the supported services.

1309 Q. Did the Federal Communications Commission in its recent Order approving, with
1310 certain modifications to, the Rural Task Force Report reference on numerous
1311 occasions throughout its Order as one of the reasons they were adopting the Rural
1312 Task Force Report and the five year Plan was because it provided specific,
1313 predictable and sufficient Federal support to companies who were in a position to
1314 make appropriate investments to support the provision of Universal Service?

1315 A. Yes, that is correct.

1316

1317 FUNDING METHODOLOGY ISSUES

1318 Q. Please comment on the positions of Staff and the other Parties regarding the
1319 appropriate funding methodology for a § 13-301(d) Universal Service Fund.

1320 A. I believe that Staff witness Clausen, at page 2 of his Rebuttal Testimony, correctly
1321 characterizes the positions of other Parties that all either support or are willing to
1322 accept a funding methodology based on the Carrier's intrastate retail revenues.
1323 This is consistent with Staff's position and the BTA's recommendation contained
1324 in my Direct Testimony. Consistent with the requirements of § 13-301(d), all
1325 costs of the Fund should "be recovered from all local exchange and interexchange
1326 telecommunications carriers certificated in Illinois".

1327

1328 Q. Ameritech witness Tom O'Brien, at pages 8 and 9 of his Direct Testimony,
1329 suggests that the Commission should consider whether wireless carriers should
1330 also be subject to the funding requirement. Do you agree?

1331 A. No, and certainly not in this phase of the proceedings. First, as indicated above, §
1332 13-301(d) speaks specifically as to who the Funding Carriers should be and does

1333 not include wireless carriers. Second, it is my understanding that of wireless
1334 carriers were not given notice of the Commission's investigation being conducted
1335 in this proceedings, and while I'm not an attorney, it is my belief that legal
1336 challenges could be raised by wireless carriers both under the terms of the statute
1337 and for procedural reasons if there was an attempt to designate them as Funding
1338 Carriers in this phase of the proceedings.

1339

1340 Any consideration that expanding the scope of Funding Carriers beyond all local
1341 and interexchange telecommunications carriers certificated in Illinois should be
1342 done in a subsequent phase of these proceedings or a different proceeding after
1343 appropriate notice. Based on my participation in the workshops conducted by the
1344 Staff in connection with these proceedings, it is my understanding that there was
1345 concurrence that any consideration of expanding the scope of Funding Carriers
1346 would be done in a subsequent phase of the proceedings. Even if considerations
1347 were given, it is my layman's opinion that a statutory revision would be necessary.

1348

1349 Q. If the Commission determines that the Funding Carriers should impose a
1350 surcharge on customer bills, on what basis should the surcharge be imposed?

1351 A. The surcharge should be a set percentage markup to be imposed by all Funding
1352 Carriers on the amount of the end user customers' bill for intrastate
1353 telecommunications services. I agree with the testimony of Staff witness Clausen,
1354 at pages 4 and 5 of his Rebuttal Testimony, with regard to why that is the
1355 appropriate methodology.

1356 Q. At page 11 of his Direct Testimony, Staff witness Clausen recommends that a
1357 separate item appear on the phone bills of customers of recipient carriers and sets
1358 out a proposal as to how "a customer's phone bill would look". Do you agree with
1359 this Staff proposal?

1360 A. No, I do not. The Staff's proposal, in my view, would lead to customer confusion
1361 instead of customer information. In the Staff's proposal, what is stated as the
1362 "monthly line charge" is an amount that could only be determined by "back
1363 figuring" and is a meaningless number and can only serve to confuse customers.
1364 In light of the rate-of-return limitation being considered in connection with this
1365 proceeding, the back figured "monthly line charge" is nothing more than a
1366 meaningless or misleading number. The monthly line charge would not be a rate
1367 for basic service that had been filed and approved by the company. It would not
1368 be representative of the economic costs of basic service as determined by the HAI
1369 Model or some other means. In addition, on a going forward basis, there would
1370 presumably be changes in the amount an individual funded company receives
1371 from the Fund, either on a yearly or some other basis, that would impact the
1372 amount of universal service funding the company receives (either up or down)
1373 that would raise or lower the amount of the Staff's proposed "monthly line
1374 charge", which in my view would only further confuse customers.

1375

1376 In addition, as Mr. Clausen acknowledges in his testimony, any necessary changes
1377 in the billing systems would not, in my opinion, make it possible to implement
1378 any such proposal in the near future.

1379 While first and foremost I believe the Staff's proposal is ill-conceived and should
1380 not be adopted, any consideration of Staff's proposal or similar proposals should
1381 not be addressed in this phase of the dockets but should be considered in a
1382 subsequent phase of the dockets.

1383

1384 ADMINISTRATION OF ANY "TRUE UP"

1385 Q. Is the IITA taking a position with regard to the "true-up" issue related to the DEM
1386 Weighting Fund?

1387 A. No. This dispute has been, and remains, between and among the DEM Weighting
1388 Funding Carriers, with local exchange carriers, such as Ameritech and Verizon,
1389 aligned on one side, and interexchange carriers, such as AT&T, MCI/WorldCom
1390 and Sprint, on the other. However, the IITA recognizes that the Commission
1391 should now resolve this issue.

1392

1393 Q. What will the Commission need to do if it determines there should be a "true-up"
1394 of the 1998, 1999, 2000 and 2001 DEM Weighting Funds for any sub-set of
1395 years?

1396 A. The Commission will need to clearly set forth the methodology to be used for any
1397 ordered true-up. It will need to identify the data that is to be used for each year of
1398 the true-up. The Commission should direct the ISCECA to implement the true-up
1399 and direct all DEM Weighting Funding Carriers to provide the requisite data to
1400 the ISCECA so the true-up can be implemented and completed in a timely
1401 manner. The ISCECA will need the authority and the ability to first bill and

1402 collect underpayments and then distribute overpayments. Finally, the
1403 Commission will need to authorize a mechanism that will allow the ISCECA to
1404 recover their expenses of administering any ordered true-up.

1405

1406 Q. Sprint witness David Rearden, in his Direct Testimony, suggests that carriers
1407 owed money under a true-up of prior DEM Weighting Funds be given "credits"
1408 on a going forward basis with regard to payments that those carriers may owe to
1409 the new Universal Service Fund. Do you have an opinion with regard to this
1410 proposal?

1411 A. Yes, I do. It should not be adopted. Any ordered true-up of the DEM Weighting
1412 Fund should occur independent of the implementation and funding of any new
1413 Universal Service Fund. The new Universal Service Fund is separate and distinct
1414 from the prior DEM Weighting Funds with a different and vastly expanded set of
1415 Funding Carriers. Substantial issues must be resolved to implement the new
1416 Universal Service Fund on a timely basis, and the last thing that is needed is to
1417 make that implementation more complex by intermingling into it any ordered
1418 true-up of the DEM Weighting Fund.

1419

1420 **RESPONSE TO STAFF ADJUSTMENT TO FEDERAL USF**

1421 Q. Please describe the federal USF funding adjustment that Staff made in Bill Voss's
1422 testimony, ICC Staff Exhibit 7.0, Schedule 7.20.

1423

1424 A. The adjustment made by Mr. Voss is intended to adjust the earnings levels of the
1425 companies to reflect changes in federal USF support estimated for 2001 in
1426 comparison with that actually received in 2000. There are three components
1427 included in the Staff's Federal funding adjustment that appeared in Staff Exhibit
1428 7.0, Schedule 7.20. The three (3) funds that comprise the adjustment that Staff
1429 made are the traditional High Cost Loop (HCL) fund, the Local Switching
1430 Support Fund (LSS) and the Long Term Support Fund (LTS). Staff took the 2001
1431 annualized revenues from all three funds and compared the revenues to the 2000
1432 funding as reported by the Universal Service Administration Corporation (USAC)
1433 and adjusted for the increase or decrease in these funds.

1434

1435 Q. Do you agree with this adjustment?

1436 A. Only in part. I do not take issue with the data sources used by the Staff to
1437 generate the adjustment. I agree with the portion of the adjustment that relates to
1438 the HCL fund. I do not agree with the adjustments related to changes in LSS and
1439 LTS funding.

1440

1441 Q. Why are you in agreement with the adjustment related to the HCL fund?

1442 A. The increase in USF funding related to the HCL fund is known and measurable
1443 and will result in increased revenues to the individual companies. Therefore, I
1444 agree with this adjustment. I have discussed this matter with representatives of
1445 the individual companies and they agree to this adjustment as well.

1446

1447 Q. Why do you disagree with the adjustments for LSS and LTS?

1448 A. Because they do not result in additional revenues to the companies. Although
1449 there may be changes in the federal support funds allocated or assigned to the
1450 companies, there are offsetting mechanisms which reduce other federal revenue
1451 sources so the companies do not, in total, receive additional revenues.

1452

1453 Q. Can you describe more specifically the mechanisms related to the LTS support?

1454 A. Yes, I can. All of the companies requesting IUSF funding are members of the
1455 National Exchange Carrier Association (NECA) Carrier Common Line (CCL)
1456 pool. The total funding that each company will receive from the pool is
1457 determined by individual cost or average schedule study formulas. The revenue
1458 to provide this funding comes from four sources: 1) the company's LTS support;
1459 2) the federal Subscriber Line Charge, 3) the per minute of use CCL charges to
1460 carriers, and 4) settlement from the NECA pool. This settlement amount is the
1461 difference between the funding requirement and the other three revenue sources.
1462 Therefore, if the federal LTS funding goes up and the funding requirement and
1463 billed revenue items are held constant the NECA settlement will be reduced and
1464 the total revenue received by the company will remain unchanged at the level of
1465 the funding requirement. Since the company will receive no more total revenues
1466 than their funding requirement which is already reflected in the earnings analysis
1467 there should be no adjustment for changes in LTS support.

1468

1469 Q. Is the mechanism the same in regard to local switching support?

1470 A. For average schedule companies it is virtually identical except that there is no end
1471 user SLC charge involved. For average schedule companies, the companies will
1472 still receive their "revenue requirement" from the NECA pool based on the
1473 average schedule algorithm. The companies bill a switching element to the
1474 carriers and reports it to NECA. NECA receives the LSS support money from
1475 USAC directly and uses it as one revenue source for funding the NECA
1476 settlement between the "revenue requirement" and the revenues billed to carriers.
1477 If the LSS funding attributed to the company goes up, the remaining NECA
1478 settlement would be reduced and the company again receives the "revenue
1479 requirement" already included in the earnings analysis.

1480

1481 Q. Is the mechanism the same for LSS for cost settlement companies?

1482 A. The mechanism is a little different, but the basic results are the same. The cost
1483 companies complete cost studies to determine the Interstate Switching revenue
1484 requirement. The LSS revenues are then subtracted out of the revenue
1485 requirement and the remainder is used to set the local switching access rate.
1486 Therefore, if the revenue requirement is kept constant, the local switching rate
1487 would vary up or down depending on LSS support funds received. Thus for both
1488 cost and average schedule companies the overall level of revenues received by the
1489 company are basically unchanged by a change in the LSS support. Changes in the
1490 LSS support are offset by changes in either NECA settlements or in revenues
1491 billed by the carrier under its rates.

1492

1493 Q. Have you prepared an Attachment showing the breakdown of the federal support
1494 developed by Staff witness Voss into its three component parts and the
1495 appropriate adjustment for only the HCL support change?

1496 A. I have. Attached is IITA Exhibit 4, Attachment 6 showing the breakdown of the
1497 Total Federal High Cost Funding by HCL, LSS and LTS. Page 1 or 4 shows a
1498 summary of the change in the federal support by component and the total change
1499 in the three components. The total amount on this schedule agrees with ICC Staff
1500 Exhibit 7.0, Schedule 7.20, Page 1 of 2. Pages 2 through 4 of this Attachment
1501 show the calculation of the differences in each of the individual components for
1502 each company for HCL, LTS, and LSS respectively. Page 2 which depicts the
1503 HCL support change between 2000 and 2001 has some additional columns as
1504 well. Column (e) contains the revenue increase or decrease for 2001 over 2000,
1505 the amount that I have agreed is an appropriate adjustment. Column (f) reflects
1506 for individual companies the adjustments that were made in their initial earnings
1507 filings related to this issue. Column (g) reflects then the additional adjustment
1508 that would be needed to the company's earnings filings to arrive at an adjusted
1509 IUSF funding request level. I will include in a separate attachment a revised
1510 calculation of the individual company IUSF funding request levels.

1511

1512 CONCLUSION

1513 Q. After reviewing all the testimony presented in the case, does the IITA still support
1514 its initial proposal to the Commission for determining IUSF funding?

1515 A. Yes, it does. I have tried to respond to the testimony of other parties and provide
1516 our rationale for supporting the use of the HAI model only as a proxy tool with
1517 the relevant analysis from this tool being done for the group of small Illinois
1518 companies as a whole. The IITA continues to support its proposal for using the
1519 existing rates as the affordable rates and agrees that the embedded cost earnings
1520 analysis should be used to determine IUSF funding without limitations from
1521 individual company HAI results.

1522

1523 Q. In your supplemental direct testimony you presented a schedule showing the total
1524 IUSF funding requested by the companies. Are you presenting a revised schedule
1525 of that funding amount?

1526 A. I am. IITA Exhibit 4, Attachment 10 presents a revised schedule of the requested
1527 funding amounts with certain adjustments from the initial amounts. The schedule
1528 shows the initial requested amount, adjustments made by individual companies
1529 since the initial filing, and the additional adjustment I have accepted to reflect the
1530 2001 change in federal high cost loop funding discussed above. The Attachment
1531 shows a requested funding requirement of \$14,145,178. I am concerned that due
1532 to the lack of time to thoroughly review the rebuttal testimony filed by individual
1533 parties that not all the individual company adjustments that have been accepted by
1534 the companies may be reflected in this schedule. I will continue to review and
1535 verify the schedule, and if additional changes are needed will provide a corrected
1536 copy at the time of the hearing.

1537

1538 Q. Does this conclude your testimony?

1539 A. Yes, it does.

1540

Illinois Independent Telephone Association

Summary of Impact on USF Cost of

ITA Assumption Changes from Default

						%
	BAI Default	HAI Cost	Difference -	Change		
	Cost	w/Input	Input Change	to Default	from	Default
1 Plant Type Assumptions	\$ 61.01	\$ 58.56	\$ (2.45)			-4.0%
2 Fraction of Buried Plant for Shift	\$ 61.01	\$ 61.01	\$ 0.00			0.0%
3 Structure Sharing	\$ 61.01	\$ 78.61	\$ 17.60			28.8%
4 End Office Switching	\$ 61.01	\$ 64.92	\$ 3.91			6.4%
5 Tandem Routed Traffic	\$ 61.01	\$ 59.67	\$ (1.34)			-2.2%
6 Total Interoffice Traffic Fraction	\$ 61.01	\$ 56.77	\$ (4.25)			-7.0%
7 Cost of Capital	\$ 61.01	\$ 70.32	\$ 9.30			15.3%
8 Forward Looking Network Operations	\$ 61.01	\$ 62.32	\$ 1.31			2.1%
9 Local Number Portability	\$ 61.01	\$ 60.71	\$ (0.30)			-0.5%
10 Billing/Billing Inquiry	\$ 61.01	\$ 63.87	\$ 2.86			4.7%
11 Carrier to Carrier Customer Service	\$ 61.01	\$ 61.13	\$ 0.12			0.2%
12 COE Switching and Transmission Expense Factors	\$ 61.01	\$ 64.18	\$ 3.16			5.2%
Total Recommendation	\$ 61.01	\$ 91.67	\$ 30.66			50.3%

1

2

3 1. While the weather and geography are same for the electric and telephone company in a given
4 location, the relative cost of aerial and buried plant construction are different. These differences
5 have a significant relationship to safety considerations because of the difference in electrical current
6 carried over telephone plant (typically 48 volts and less than .5 amps) vs. that in electrical distribution
7 plant (typically hundreds or thousands of volts and significant amps).

8

9 Typically, telephone companies have found that the total cost of ownership of buried cable is less
10 than that of aerial cable. Aerial cable first cost is almost always less than buried cable. However, in
11 areas such as Illinois, where there is deep soil cover that accommodates plow type placement of
12 buried cable, the additional first cost of buried cable over aerial cable is small. Aerial cables are
13 subject to damage due to lightening, wind, and ice. Buried cables in Illinois are subject to failure
14 mainly from unintentional dig-ups (Illinois fortunately does not have either earthquakes or permafrost
15 heaves, which do cause significant damage to buried cables.) Thus, in areas such as Illinois, the
16 small first cost advantage of aerial cable is offset by much higher maintenance costs over the life of
17 the cable. The total life cost of buried cable is lower than for aerial in Illinois. In areas where there is
18 significant hard rock near the surface, the first cost difference increases, and at some point, the total
19 life cost of aerial cable becomes lower. In those areas, telephone companies typically employ aerial
20 rather than buried cables. Such areas as the Appalachian Mountains and Hawaii, which have very
21 hard rock with limited soil cover, utilize a large amount of rural aerial telephone construction.

22

23 Electric companies have found aerial cable to be lower in total life costs in most areas due to the
24 significantly higher first cost of construction of buried electric cable when compared with aerial
25 electric cable. Buried electric cable must be insulated, whereas aerial power cables are typically
26 bare conductors that use the air between the conductors for insulation. This results in much higher
27 material costs for buried cable vs. aerial cable. In addition, because power cable is stiff and bulky,
28 trenching is required (vs. plowing) for construction. Trenches for buried electric cable typically have
29 to be three to four feet deep. Typical cost of construction for plow type construction is \$2.50 per foot,
30 compared with \$6.00 or more per foot typical of trench construction. Thus, even if buried electric
31 cable has a lower annual maintenance cost, the high first cost difference gives the overall lifetime
32 cost advantage to aerial electric cable. Information received from one source in the electric industry
33 indicated that cost of buried three-phase electrical plant is almost 60% higher than aerial electric
34 plant.

35

36 In addition, many older buried electric cables have experienced high maintenance costs. Electric
37 current flowing in cables that pass through wet surrounding material (soil) causes corrosion through
38 an electrochemical process known as electrolysis. The higher the electric current, the greater the
39 corrosion. Thus, a small hole in the insulation of an electric cable can cause corrosion and failure.
40 Buried electric cable is much more susceptible to electrolysis than aerial electric cable. With buried
41 cable the surrounding soil remains damp much of the year, whereas aerial cable is wet only when it
42 rains. In addition, chemicals in soil that speed up electrolysis are not present in the air surrounding
43 aerial cables. Thus, depending on soil chemistry and water conditions, buried electric cable may
44 have a significantly higher maintenance cost than aerial electric cable.

45

46 Telephone cables, that carry much lower electric currents, and are encased in sheaths that are filled
47 with a Vaseline-like water repellant filler, do not normally experience corrosion due to electrolysis.
48 Typically, buried telephone cables have longer life than aerial telephone cables that are subject to
49 damage from lightening, wind, and ice.

50

Excerpt from HAI Inputs Portfolio, Page 33

2.6.1. Distribution Cable Sizing Factors

Definition: The factor by which distribution cable is increased above the size needed to serve a given quantity of demand in order to provide spare pairs for breakage, line administration, and some amount of growth. HM 5.0a divides the number of pairs needed in a distribution cable to meet existing demand by this factor to determine the minimum number of pairs required, then uses the next larger available size cable.

Default Values:

Distribution Cable Sizing Factors	
Density Zone	Factors
0-5	.50
5-100	.55
100-200	.55
200-650	.60
650-850	.65
850-2,550	.70
2,550-5,000	.75
5,000-10,000	.75
10,000+	.75

Support: In determining appropriate cable size, an outside plant engineer is more interested in a sufficient number of administrative spares than in the percent-sizing ratio. The appropriate distribution cable sizing factor, therefore, will vary depending upon the size of cable. For example, 75% utilization in a 2400 pair cable provides 600 spares. However, 50% utilization in a 6 pair cable provides only 3 spares. Since smaller cables are used in lower density zones, Distribution Cable Sizing Factors in HM 5.0a are lower in the lowest density zones to account for this effect.

In general, the level of spare capacity provided by default values in HM 5.0a is sufficient to meet current demand plus some amount of growth. Because the model calculates the unit loop investment cost as the total loop investment (including spare capacity), divided by the current loop demand, the resulting unit costs are a conservatively high estimate of the economic cost of meeting current loop demand. This occurs because, in reality, some of the spare distribution plant can and will be used to satisfy additional loop demand in the future, without causing any additional investment cost, thus a larger number of customers will pay for the cable over time. In this sense, the HM 5.0a default values for the distribution cable sizing factors are conservatively low from an economic costing standpoint.

FCC Cable Sizing Factors

Fill Factors			
Density	Feeder	Distribution	Comments
0	70.0%	50.0%	Utilization factors for feeder and distribution plant
5	77.5%	55.0%	
100	80.0%	55.0%	
200	82.5%	60.0%	
650	82.5%	70.0%	
850	82.5%	75.0%	
2550	82.5%	75.0%	
5000	82.5%	75.0%	
10000	82.5%	75.0%	

Source: Tenth Report and Order, CC Docket No. 96-45, FCC #99-304, Adopted
October 21, 1999. Appendix A1.

	A	B	C	D	E	F
1	IITA Exhibit 4, Attachment 5					
2	Revision of AT&T Exhibit S.3					
3						
4	Comparison of Access Cost to Access Revenue					
5						
6	Company Name	HAI 5.0a (AT&T inputs) Ave. Cost	Actual Rate	HAI Annual Costs	Actual Annual Revenue	Individual Company Eligibility Status
7	Adams	\$ 0.04800	\$ 0.06315	\$ 903,456	\$ 1,188,609	INELIGIBLE
8	Alhambra	\$ 0.04800	0.03699			
9	Cambridge	\$ 0.04800	0.04566			
10	Cass County	\$ 0.04800	0.02724			
11	Clarksville	\$ 0.04800	0.07434	29,777	46,117	INELIGIBLE
12	C-R	\$ 0.04800	0.05600	275,502	321,419	INELIGIBLE
13	Crossville	\$ 0.04800	0.05418	104,276	117,702	INELIGIBLE
14	Egyptian	\$ 0.04800	0.05410	924,721	1,042,238	INELIGIBLE
15	El Paso	\$ 0.04800	0.03427			
16	FC of Depue	\$ 0.04800	0.04222			
17	FC of Illinois	\$ 0.04800	0.01157			
18	FC of Lakeside	\$ 0.04800	0.01157			
19	FC of Midland	\$ 0.04800	0.01157			
20	FC of Mt. Pulaski	\$ 0.04800	0.01157			
21	FC of Orion	\$ 0.04800	0.01157			
22	FC of Prairie	\$ 0.04800	0.01157			
23	FC of Schuyler	\$ 0.04800	0.01157			
24	Flat Rock	\$ 0.04800	0.04186			
25	Geneseo	\$ 0.04800	0.03119			
26	Glasford	\$ 0.04800	0.03829			
27	Grafton	\$ 0.04800	0.04018			
29	Gridley	\$ 0.04800	0.03880			
30	Hamilton	\$ 0.04800	0.03426			
31	Harrisonville	\$ 0.04800	0.01159			
32	Henry County	\$ 0.04800	0.05109	205,860	219,112	INELIGIBLE
33	Home	\$ 0.04800	0.05850	29,983	365,452	INELIGIBLE
34	Kinsman	\$ 0.04800	0.10253	38,802	82,882	INELIGIBLE
35	LaHarpe	\$ 0.04800	0.04772			
36	Leaf River	\$ 0.04800	0.11240	131,816	308,670	INELIGIBLE
37	Leonore	\$ 0.04800	0.08374	35,059	61,164	INELIGIBLE
38	Madison	\$ 0.04800	0.09550	628,944	1,251,337	INELIGIBLE
39	Marseilles	\$ 0.04800	0.02564			
40	McDonough	\$ 0.04800	0.04064			
41	McNabb	\$ 0.04800	0.04465			
42	Metamora	\$ 0.04800	0.02907			
43	Mid Century	\$ 0.04800	0.04720			
44	Montrose	\$ 0.04800	0.04462			
45	Moultrie	\$ 0.04800	0.09744	302,410	613,892	INELIGIBLE
46	New Windsor	\$ 0.04800	0.04820	119,600	120,098	INELIGIBLE
47	Odin	\$ 0.04800	0.05587	277,266	322,726	INELIGIBLE
48	Oneida	\$ 0.04800	0.05767	92,726	111,406	INELIGIBLE
49	Reynolds	\$ 0.04800	0.05100	131,603	139,828	INELIGIBLE
50	Shawnee	\$ 0.04800	0.04644			
51	Stelle	\$ 0.04800	0.29407	6,589	40,370	INELIGIBLE
52	Tonica	\$ 0.04800	0.04791			
53	Viola Home	\$ 0.04800	0.04829	153,112	154,037	INELIGIBLE
54	Wabash	\$ 0.04800	0.03154			
55	Woodhull	\$ 0.04800	0.05352	131,150	146,232	INELIGIBLE
56	Yates City	\$ 0.04800	0.05036	123,341	128,356	INELIGIBLE
57						
58	Total Small Companies	\$ 0.04800		\$ 4,645,993	\$ 6,781,647	
59	Revenue Reduction				\$ (2,135,654)	
60						
61						
62						

IUSF REQUESTING COMPANIES
Summary of Federal Total High Cost Fund Support
For the Years 2000 and 2001

Line #	Company	Change in HCL	Change in LTS	Change in LSS	Total Change In Federal Support
(a)	(b)	(c)	(d)	(e)	(f)
1	ADAMS TEL COOP	\$ 96,021	\$ 2,700	\$ (19,896)	\$ 78,825
2	ALHAMBRA GRANTFORK	147	732	(2,316)	(1,437)
3	CAMBRIDGE TEL CO -IL	(4,242)	780	(2,112)	(5,574)
4	CASS COUNTY TEL CO	38,598	1,488	58,764	98,850
5	C-R TEL CO	21,915	3,060	(16,872)	8,103
6	CROSSVILLE TEL CO	6,474	264	2,772	9,510
7	EGYPTIAN COOP ASSN	(115,746)	3,648	(15,228)	(127,326)
8	EL PASO TEL CO	(59,997)	708	23,064	(36,225)
9	FLAT ROCK TEL CO-OP	2,316	60	26,928	29,304
10	FRONTIER DEPUE	1,755	384	5,892	8,031
11	FRONTIER OF ILLINOIS	45,510	-	100,560	146,070
12	FRONTIER OF LAKESIDE	-	-	6,816	6,816
13	FRONTIER-MIDLAND	(57,444)	-	129,636	72,192
14	FRONTIER-PRAIRIE	-	-	(6,864)	(6,864)
15	FRONTIER-SCHUYLER	80,700	-	106,716	187,416
16	GLASFORD TEL CO	(441)	600	5,856	6,015
17	GRAFTON TEL CO	17,529	936	6,648	25,113
18	GRIDLEY TEL CO	26,394	996	24,540	51,930
19	HARRISONVILLE TEL CO	356,838	15,828	(358,416)	14,250
20	HENRY COUNTY TEL CO	7,278	732	(792)	7,218
21	HOME TEL CO-ST JACOB	75,450	3,252	38,892	117,594
22	LA HARPE TEL CO	83,928	2,100	1,344	87,372
23	LEAF RIVER TEL CO	(29,862)	2,472	(28,344)	(55,734)
24	MADISON TEL CO	145,167	5,076	66,120	216,363
25	MCDONOUGH TEL COOP	99,105	2,700	55,056	156,861
26	MCNABB TEL CO	5,664	228	(1,296)	4,596
27	METAMORA TEL CO	-	1,224	(17,724)	(16,500)
28	MID CENTURY TEL COOP	96,735	3,240	13,092	113,067
29	MONTROSE MUTUAL TEL	(12,990)	612	23,532	11,154
30	MOULTRIE INDEPENDENT	(151,308)	1,824	34,368	(115,116)
31	NEW WINDSOR TEL CO	7,626	288	1,308	9,222
32	ODIN TEL EXCH INC	(44,172)	2,256	(2,808)	(44,724)
33	ONEIDA TEL EXCHANGE	-	-	43,320	43,320
34	REYNOLDS TEL CO, INC	8,058	228	7,464	15,750
35	SHAWNEE TELEPHONE CO	221,928	2,412	75,624	299,964
36	TONICA TEL CO	8,094	288	(2,316)	6,066
37	VIOLA HOME TEL CO	3,252	348	8,508	12,108
38	WABASH TEL COOP, INC	-	1,140	(1,152)	(12)
39	WOODHULL COMMUNITY	12,438	120	(6,996)	5,562
		\$ 992,718	\$ 62,724	\$ 383,688	\$ 1,439,130

IUSF REQUESTING COMPANIES
Summary of High Cost Loop Funding
For the Years 2000 and 2001

Line #	Company	2000 HCL Annualized	2001 HCL Annualized	Increase/ (Decrease)	Original Adjustment	Additional Adjs. Needed
(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	ADAMS TEL COOP	\$ 168,405	\$ 264,426	\$ 96,021	\$ -	\$ 96,021
2	ALHAMBRA-GRANTFORK	51,855	52,002	147	-	147
3	CAMBRIDGE TEL CO -IL	25,344	21,102	(4,242)	-	(4,242)
4	CASS COUNTY TEL CO	127,290	165,888	38,598	-	38,598
5	C-R TEL CO	397,419	419,334	21,915	21,915	-
6	CROSSVILLE TEL CO	15,990	22,464	6,474	-	6,474
7	EGYPTIAN COOP ASSN	534,378	418,632	(115,746)	(115,746)	-
8	EL PASO TEL CO	94,257	34,260	(59,997)	(59,997)	-
9	FLAT ROCK TEL CO-OP	-	2,316	2,316	-	2,316
10	FRONTIER-DEPUE	15,177	16,932	1,755	-	1,755
11	FRONTIER OF ILLINOIS	34,260	79,770	45,510	-	45,510
12	FRONTIER OF LAKESIDE	-	-	-	-	-
13	FRONTIER-MIDLAND	267,048	209,604	(57,444)	-	(57,444)
14	FRONTIER-PRAIRIE	-	-	-	-	-
15	FRONTIER-SCHUYLER	-	80,700	80,700	-	80,700
16	GLASFORD TEL CO	441	-	(441)	-	(441)
17	GRAFTON TEL CO	162,363	179,892	17,529	-	17,529
18	GRIDLEY TEL CO	31,182	57,576	26,394	30,681	(4,287)
19	HARRISONVILLE TEL CO	1,435,980	1,792,818	356,838	356,838	-
20	HENRY COUNTY TEL CO	30,282	37,560	7,278	-	7,278
21	HOME TEL CO-ST JACOB	534,624	610,074	75,450	75,450	-
22	LA HARPE TEL CO	335,502	419,430	83,928	-	83,928
23	LEAF RIVER TEL CO	141,402	111,540	(29,862)	(29,424)	(438)
24	MADISON TEL CO	699,111	844,278	145,167	212,412	(67,245)
25	MCDONOUGH TEL COOP	163,665	262,770	99,105	99,105	-
26	MCNABB TEL CO	48,414	54,078	5,664	5,664	-
27	METAMORA TEL CO	-	-	-	-	-
28	MID CENTURY TEL COOP	172,425	269,160	96,735	96,735	-
29	MONTROSE MUTUAL TEL	12,990	-	(12,990)	(12,990)	-
30	MOULTRIE INDEPENDENT	430,278	278,970	(151,308)	-	(151,308)
31	NEW WINDSOR TEL CO	16,152	23,778	7,626	-	7,626
32	ODIN TEL EXCH INC	383,418	339,246	(44,172)	(44,172)	-
33	ONEIDA TEL EXCHANGE	-	-	-	-	-
34	REYNOLDS TEL CO, INC	15,984	24,042	8,058	-	8,058
35	SHAWNEE TELEPHONE CO	135,084	357,012	221,928	-	221,928
36	TONICA TEL CO	15,894	23,988	8,094	9,456	(1,362)
37	VIOLA HOME TEL CO	14,856	18,108	3,252	-	3,252
38	WABASH TEL COOP, INC	-	-	-	-	-
39	WOODHULL COMMUNITY	-	12,438	12,438	-	12,438
		\$ 6,511,470	\$ 7,504,188	\$ 992,718	\$ 645,927	\$ 346,791

IUSF REQUESTING COMPANIES
Summary of Long Term Support
For the Years 2000 and 2001

Line #	Company	2000 LTS	2001 LTS	Increase/ (Decrease)
(a)	(b)	(c)	(d)	(e)
1	ADAMS TEL COOP	181,248	183,948	2,700
2	ALHAMBRA-GRANTFORK	48,888	49,620	732
3	CAMBRIDGE TEL CO-IL	52,452	53,232	780
4	CASS COUNTY TEL CO	99,636	101,124	1,488
5	C-R TEL CO	205,188	208,248	3,060
6	CROSSVILLE TEL CO	18,360	18,624	264
7	EGYPTIAN COOP ASSN	244,344	247,992	3,648
8	EL PASO TEL CO	47,784	48,492	708
9	FLAT ROCK TEL CO-OP	3,612	3,672	60
10	FRONTIER-DEPUE	25,260	25,644	384
11	FRONTIER OF ILLINOIS	-	-	-
12	FRONTIER OF LAKE SIDE	-	-	-
13	FRONTIER-MIDLAND	-	-	-
14	FRONTIER-PRAIRIE	-	-	-
15	FRONTIER-SCHUYLER	-	-	-
16	GLASFORD TEL CO	40,668	41,268	600
17	GRAFTON TEL CO	63,396	64,332	936
18	GRIDLEY TEL CO	67,380	68,376	996
19	HARRISONVILLE TEL CO	1,062,276	1,078,104	15,828
20	HENRY COUNTY TEL CO	49,368	50,100	732
21	HOME TEL CO-ST JACOB	218,904	222,156	3,252
22	LA HARPE TEL CO	141,696	143,796	2,100
23	LEAF RIVER TEL CO	166,536	169,008	2,472
24	MADISON TEL CO	341,064	346,140	5,076
25	MCDONOUGH TEL COOP	180,696	183,396	2,700
26	MCNABB TEL CO	14,724	14,952	228
27	METAMORA TEL CO	82,416	83,640	1,224
28	MID CENTURY TEL COOP	217,068	220,308	3,240
29	MONTROSE MUTUAL TEL	41,244	41,856	612
30	MOULTRIE INDEPENDENT	122,352	124,176	1,824
31	NEW WINDSOR TEL CO	19,908	20,196	288
32	ODIN TEL EXCH INC	151,824	154,080	2,256
33	ONEIDA TEL EXCHANGE	-	-	-
34	REYNOLDS TEL CO, INC	15,384	15,612	228
35	SHAWNEE TELEPHONE CO	161,748	164,160	2,412
36	TONICA TEL CO	18,972	19,260	288
37	VIOLA HOME TEL CO	23,472	23,820	348
38	WABASH TEL COOP, INC	76,176	77,316	1,140
39	WOODHULL COMMUNITY	8,064	8,184	120
		\$ 4,212,108	\$ 4,274,832	\$ 62,724

IUSF REQUESTING COMPANIES
Summary of Local Switching Support
For the Years 2000 and 2001

Line #	Company	2000 LSS	2001 LSS	Increase/ (Decrease)
(a)	(b)	(c)	(d)	(e)
1	ADAMS TEL COOP	358,284	338,388	(19,896)
2	ALHAMBRA-GRANTFORK	117,108	114,792	(2,316)
3	CAMBRIDGE TEL CO-IL	124,944	122,832	(2,112)
4	CASS COUNTY TEL CO	245,592	304,356	58,764
5	C-R TEL CO	177,768	160,896	(16,872)
6	CROSSVILLE TEL CO	64,560	67,332	2,772
7	EGYPTIAN COOP ASSN	645,528	630,300	(15,228)
8	EL PASO TEL CO	267,228	290,292	23,064
9	FLAT ROCK TEL CO-OP	90,768	117,696	26,928
10	FRONTIER-DEPUE	58,848	64,740	5,892
11	FRONTIER OF ILLINOIS	361,848	462,408	100,560
12	FRONTIER OF LAKESIDE	61,944	68,760	6,816
13	FRONTIER-MIDLAND	415,632	545,268	129,636
14	FRONTIER-PRAIRIE	30,564	23,700	(6,864)
15	FRONTIER-SCHUYLER	160,896	267,612	106,716
16	GLASFORD TEL CO	78,240	84,096	5,856
17	GRAFTON TEL CO	138,084	144,732	6,648
18	GRIDLEY TEL CO	366,324	390,864	24,540
19	HARRISONVILLE TEL CO	949,248	590,832	(358,416)
20	HENRY COUNTY TEL CO	103,512	102,720	(792)
21	HOME TEL CO-ST JACOB	291,912	330,804	38,892
22	LA HARPE TEL CO	113,304	114,648	1,344
23	LEAF RIVER TEL CO	249,240	220,896	(28,344)
24	MADISON TEL CO	506,316	572,436	66,120
25	MCDONOUGH TEL COOP	265,536	320,592	55,056
26	MCNABB TEL CO	110,292	108,996	(1,296)
27	METAMORA TEL CO	327,132	309,408	(17,724)
28	MID CENTURY TEL COOP	274,632	287,724	13,092
29	MONTROSE MUTUAL TEL	110,316	133,848	23,532
30	MOULTRIE INDEPENDENT	316,440	350,808	34,368
31	NEW WINDSOR TEL CO	49,524	50,832	1,308
32	ODIN TEL EXCH INC	182,676	179,868	(2,808)
33	ONEIDA TEL EXCHANGE	84,708	128,028	43,320
34	REYNOLDS TEL CO, INC	51,720	59,184	7,464
35	SHAWNEE TELEPHONE CO	399,048	474,672	75,624
36	TONICA TEL CO	39,192	36,876	(2,316)
37	VIOLA HOME TEL CO	59,028	67,536	8,508
38	WABASH TEL COOP, INC	329,820	328,668	(1,152)
39	WOODHULL COMMUNITY	150,324	143,328	(6,996)
		<u>\$ 8,728,080</u>	<u>\$ 9,111,768</u>	<u>\$ 383,688</u>

Illinois Independent Telephone Association
Analysis of Impact of Staff Proposal to use HAI to exclude IUSF Support

Alternative #1- Based on Initial Company Requested Earnings Based Support

Company	Initial Support Requested	Access Lines	Support/Line/Month	Current Rate	Rate Needed to Provide Support Amount
Grafton	\$ 223,441	852	\$ 21.85	\$ 19.61	\$ 41.46
Gridley	\$ 622,955	1,441	\$ 36.03	\$ 21.90	\$ 57.93
Harrisonville	\$ 1,064,529	19,690	\$ 4.51	\$ 19.18	\$ 23.69
Home	\$ 633,541	1,012	\$ 52.17	\$ 21.75	\$ 73.92
Leaf River	\$ 263,926	610	\$ 36.06	\$ 25.59	\$ 61.65
Madison	\$ 726,451	1,599	\$ 37.86	\$ 20.25	\$ 58.11
Moultrie	\$ 727,670	853	\$ 71.09	\$ 20.19	\$ 91.28
Odin	\$ 51,097	1,146	\$ 3.72	\$ 20.51	\$ 24.23

Alternative #2- Based on Staff Proposed Earnings Based Support

Company	Staff Proposed Support	Access Lines	Support/Line/Month	Current Rate	Rate Needed to Provide Support Amount
Grafton	\$ 198,327	852	\$ 19.40	\$ 19.61	\$ 39.01
Gridley	\$ 304,253	1,441	\$ 17.60	\$ 21.90	\$ 39.50
Harrisonville	\$ 1,090,701	19,690	\$ 4.62	\$ 19.18	\$ 23.80
Home	\$ 591,396	1,012	\$ 48.70	\$ 21.75	\$ 70.45
Leaf River	\$ 290,237	610	\$ 39.65	\$ 25.59	\$ 65.24
Madison	\$ 722,499	1,599	\$ 37.65	\$ 20.25	\$ 57.90
Moultrie	\$ 604,156	853	\$ 59.02	\$ 20.19	\$ 79.21
Odin	\$ 51,649	1,146	\$ 3.76	\$ 20.51	\$ 24.27

Illinois Independent Telephone Association
 Analysis of Local Service Rates and Total Payment for Local Service

	Average Local Service Rate	Total Payment for Local Service	Difference
1 Tonica	\$ 31.20	\$ 38.29	\$ 7.09
2 FC of Lakeside	\$ 26.14	\$ 34.16	\$ 8.02
3 Leal River	\$ 25.59	\$ 33.60	\$ 8.01
4 FC of Depue	\$ 22.10	\$ 30.76	\$ 8.66
5 Yates City	\$ 22.89	\$ 30.73	\$ 7.83
6 Gridley	\$ 21.90	\$ 30.07	\$ 8.18
7 Grallon	\$ 19.61	\$ 30.06	\$ 10.45
8 McNabb	\$ 19.39	\$ 30.03	\$ 10.64
9 Flat Rock	\$ 21.61	\$ 29.71	\$ 8.10
10 FC of Prairie	\$ 20.20	\$ 29.25	\$ 9.04
11 FC of Orion	\$ 20.43	\$ 29.22	\$ 8.80
12 Cass County	\$ 20.69	\$ 29.02	\$ 8.32
13 Home	\$ 21.75	\$ 28.86	\$ 7.11
14 LaHarpe	\$ 20.45	\$ 28.86	\$ 8.41
15 FC of Midland	\$ 20.06	\$ 28.78	\$ 8.72
16 Melamora	\$ 21.51	\$ 28.67	\$ 7.16
17 El Paso	\$ 20.89	\$ 28.61	\$ 7.72
18 FC of Schuyler	\$ 20.57	\$ 28.48	\$ 7.91
19 FC of Illinois	\$ 19.44	\$ 28.31	\$ 8.87
20 Odin	\$ 20.51	\$ 27.71	\$ 7.20
21 Madison	\$ 20.25	\$ 27.50	\$ 7.25
22 McDonough	\$ 19.72	\$ 27.40	\$ 7.68
23 C-R	\$ 19.77	\$ 27.37	\$ 7.60
24 Montrose	\$ 17.98	\$ 26.58	\$ 8.60
25 Moultrie	\$ 20.19	\$ 26.53	\$ 6.34
26 Shawnee	\$ 18.37	\$ 26.33	\$ 7.96
27 FC of Mt. Pulaski	\$ 18.34	\$ 26.29	\$ 7.95
28 Wabash	\$ 18.98	\$ 26.15	\$ 7.18
29 Harrisonville	\$ 19.18	\$ 25.62	\$ 6.44
30 Crossville	\$ 16.35	\$ 25.40	\$ 9.05
31 Henry County	\$ 17.95	\$ 25.33	\$ 7.37
32 Hamilton	\$ 18.70	\$ 24.99	\$ 6.29
33 Cambridge	\$ 17.31	\$ 24.79	\$ 7.48
34 Alhambra	\$ 17.14	\$ 24.11	\$ 6.97
35 Clarksville	\$ 15.05	\$ 23.70	\$ 8.65
36 New Windsor	\$ 15.69	\$ 22.99	\$ 7.30
37 Mid Century	\$ 15.31	\$ 22.36	\$ 7.05
38 Woodhull	\$ 14.41	\$ 21.18	\$ 6.77
39 Reynolds	\$ 14.08	\$ 20.97	\$ 6.88
40 Geneseo	\$ 13.29	\$ 20.40	\$ 7.11
41 Marseilles	\$ 13.40	\$ 20.30	\$ 6.90
42 Egyptian	\$ 13.46	\$ 20.23	\$ 6.77
43 Viola Home	\$ 12.62	\$ 19.99	\$ 7.37
44 Oneida	\$ 12.13	\$ 19.24	\$ 7.11
45 Adams	\$ 12.62	\$ 18.55	\$ 5.93
46 Leonore	\$ 11.66	\$ 17.09	\$ 5.43
47 Stelle	\$ 5.12	\$ 11.87	\$ 6.76
48 Glasford	\$ 4.03	\$ 9.39	\$ 5.36
49 Kinsman	\$ 4.00	\$ 8.43	\$ 4.43
Numeric Average		\$	7.56

Response to IITA Data Request
IITA's First Data Request to ICC Staff
Docket Nos. 00-0233-00-0335 (Consol.)

ICC Person Responsible/Title: Torsten Clausen/Policy Analyst
Telecommunications Division
Business Address: Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701

IITA-Clausen-1.1

At page 3 of your testimony, you recommend that the appropriate funding methodology for an Illinois Universal Service Fund should be based on intrastate retail revenues. Please provide the total amount of Illinois intrastate revenues for all local exchange carriers and interexchange carriers certificated in Illinois for the year 2000 based on the respective companies' ICC Annual Reports for the year 2000. If certain companies have not, as yet, filed ICC Annual Reports for the year 2000, please indicate the number of local exchange carriers and interexchange carriers who have not filed and for which the requested information is not available.

Response: In determining the amount of Illinois intrastate retail revenue, Staff first reviewed public data. The FCC recently released an annual report, titled "State-by-State Telephone Revenues and Universal Service Data". In that report, the FCC estimates total Illinois intrastate retail revenues for 1999 at \$6.307 billion¹. In excluding the mobile wireless revenue from that figure, the Illinois intrastate retail revenue for 1999 is estimated to be at \$4.382 billion.

Second, Staff compared the FCC's estimates for 1999 with the figures for 2000, based on available data. After reviewing annual reports of the majority of local exchange and interexchange carriers certificated in Illinois, Staff estimates year 2000 Illinois intrastate retail revenues, excluding wireless, to equal approximately \$4.622 billion.

¹ "State-by-State Telephone Revenues and Universal Service Data", Industry Analysis Division/Common Carrier Bureau, released April 2001.

The following two examples, in which wireless revenues are excluded, illustrate the relative size of the potential surcharge:

1) A \$12 million Illinois universal service support fund would translate into a 0.26% surcharge on end-user intrastate revenues. As a result, on a \$30 bill for intrastate telecommunications services, this would amount to a \$0.078 surcharge.

2) An \$8 million Illinois universal service support fund would translate into a 0.17% surcharge on end-user intrastate revenues. As a result, on a \$30 bill for intrastate telecommunications services, this would amount to \$0.052 surcharge.

	A	B	C	D	E
1	IITA Exhibit #4, Attachment #10				
2					
3	Revised Summary of Requested IUSF Support				
4	Illinois Small Telephone Companies				
5					
6	Company	Requested IUSF Support	Changes Made to Initial Filing	2001 Federal HCL Changes Proposed	Revised Revenue Requirement
7	(a)	(b)	(c)	(d)	(b)+(c)+(d)=(e)
8					
9	Adams	\$214,786		(\$95,321)	\$118,765
10	Alhambra	21,404	(15,693)	(147)	\$5,564
11	Cambridge	90,427		4,242	\$94,669
12	Cass County	591,278		(38,598)	\$552,680
13	Clarksville	-			\$0
14	C-R	174,729	(49,179)		\$125,550
15	Crossville	16,792		(5,474)	\$10,318
16	Egyptian	1,384,265			\$1,384,265
17	El Paso	55,536	(12,974)		\$42,562
18	FC of Depue	39,485		(1,755)	\$37,730
19	FC of Illinois	1,102,620		(45,510)	\$1,057,110
20	FC of Lakeside	46,564			\$46,564
21	FC of Midland	511,775		57,444	\$569,219
22	FC of Mt. Pulaski	-			\$0
23	FC of Onon	-			\$0
24	FC of Prairie	167,107			\$167,107
25	FC of Schuyler	473,523		(80,700)	\$392,823
26	Flat Rock	110,793		(2,316)	\$108,477
27	Geneseo	-			\$0
28	Glacford	19,383		441	\$19,824
29	Grafton	223,441		(17,529)	\$205,912
30	Granview	-			\$0
31	Gridley	622,955		4,287	\$627,242
32	Hamilton	-			\$0
33	Harrisonville	1,064,529			\$1,064,529
34	Henry County	195,730		(7,278)	\$188,452
35	Home	633,541			\$633,541
36	Kinsman	-			\$0
37	LaHarpe	297,391		(83,928)	\$213,463
38	Leal River	263,926		438	\$264,364
39	Leonore	-			\$0
40	Madison	726,451		67,245	\$793,696
41	Marseilles	-			\$0
42	McDonough	971,622			\$971,622
43	McNabb	70,343			\$70,343
44	Metamora	354,556			\$354,556
45	Mid Century	443,212			\$443,212
46	Montrose	303,204	2,701		\$305,905
47	Moultrie	727,670		151,308	\$878,978
48	New Windsor	129,551		(7,626)	\$121,925
49	Odin	51,097			\$51,097
50	Oneida	173,440			\$173,440
51	Reynolds	32,259		(8,058)	\$24,201
52	Shawnee	1,157,190		(221,928)	\$935,262
53	Stelle	-			\$0
54	Tonica	55,036		1,362	\$56,398
55	Viola Home	115,056		(3,252)	\$111,804
56	Wabash	814,462			\$814,462
57	Woodhull	119,985		(12,438)	\$107,547
58	Yales City	-			\$0
59					
60	TOTAL	\$14,567,114	(\$75,145)	(\$346,791)	\$14,145,178

	A	B	C	D	E
1	IITA Exhibit #4, Attachment #10				
2	REVISED				
3	Revised Summary of Requested IUSF Support				
4	Illinois Small Telephone Companies				
5					
6	Company	Requested IUSF Support	Changes Made to Initial Filing	2001 Federal HCL Changes Proposed	Revised Revenue Requirement
7	(a)	(b)	(c)	(d)	(b)+(c)+(d)=(e)
8					
9	Adams	\$214,786		(\$96,021)	\$118,765
10	Alhambra	21,404	(15,693)	(147)	\$5,564
11	Cambridge	90,427		4,242	\$94,669
12	Cass County	591,278		(38,598)	\$552,680
13	Clarksville	-			\$0
14	C-R	174,729	(49,179)		\$125,550
15	Crossville	16,792		(6,474)	\$10,318
16	Egyptian	1,384,265			\$1,384,265
17	El Paso	55,536	(12,974)		\$42,562
18	FC of Depue	39,485	(80,701)	(1,755)	\$0
19	FC of Illinois	1,102,620	(743,516)	(45,510)	\$313,594
20	FC of Lakeside	46,564	(39,153)		\$7,411
21	FC of Midland	511,775	(101,618)	57,444	\$467,601
22	FC of Mt. Pulaski	-			\$0
23	FC of Orion	-			\$0
24	FC of Prairie	167,107	(118,131)		\$48,976
25	FC of Schuyler	473,523	(181,172)	(80,700)	\$211,651
26	Flat Rock	110,793		(2,316)	\$108,477
27	Geneseo	-			\$0
28	Glasford	19,383		441	\$19,824
29	Grafton	223,441		(17,529)	\$205,912
30	Granview	-			\$0
31	Gridley	622,955	(113,023)	4,287	\$514,219
32	Hamilton	-			\$0
33	Harrisonville	1,064,529			\$1,064,529
34	Henry County	195,730	48,836	(7,278)	\$237,288
35	Home	633,541			\$633,541
36	Kinsman	-			\$0
37	LaHarpe	297,391		(83,928)	\$213,463
38	Leaf River	263,926		438	\$264,364
39	Leonore	-			\$0
40	Madison	726,451		67,245	\$793,696
41	Marseilles	-			\$0
42	McDonough	971,622			\$971,622
43	McNabb	70,343			\$70,343
44	Metamora	354,556			\$354,556
45	Mid Century	443,212			\$443,212
46	Montrose	303,204	2.701		\$305,905
47	Moultrie	727,670		151,308	\$878,978
48	New Windsor	129,551		(7,626)	\$121,925
49	Odin	51,097			\$51,097
50	Oneida	173,440			\$173,440
51	Reynolds	32,259		(8,058)	\$24,201
52	Shawnee	1,157,190		(221,928)	\$935,262
53	Stelle	-			\$0
54	Tonica	55,036		1,362	\$56,398
55	Viola Home	115,056		(3,252)	\$111,804
56	Wabash	814,462			\$814,462
57	Woodhull	119,985		(12,438)	\$107,547
58	Yates City	-			\$0
60	TOTAL	\$14,567,114	(\$1,403,623)	(\$346,791)	\$12,859,671